

FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORT WITH  
ADDITIONAL REPORTS REQUIRED  
UNDER THE OMB CIRCULAR A-133

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

MARCH 31, 2012 AND 2011

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**CENTRO DE SALUD DE LARES, INC.**

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## Independent Auditor's Report

To the Governing Board of  
**Centro de Salud de Lares, Inc.**

We have audited the accompanying statements of financial position of **Centro de Salud de Lares, Inc.** (a nonprofit corporation) as of March 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of **Centro de Salud de Lares, Inc.** as of March 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2012 on our consideration of **Centro de Salud de Lares, Inc.'s** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the result of that testing and not to provide an opinion on the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule-combining statement of activities is presented for purpose of additional analysis and is not required as part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these schedules are fairly stated in all material respects in relation to the financial statements as a whole.



Rodriguez, Rivera & Tono PSC

Mayagüez, Puerto Rico  
November 15, 2012

**CENTRO DE SALUD DE LARES, INC**  
**(A NON PROFIT CORPORATION)**

Statements of Financial Position

March 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Cash and cash equivalents (Note 12)	\$ 2,446,120	\$ 2,364,467
Certificates of deposit	999,880	-
Contracts receivable- Grants (Note 3)	310,430	62,252
Accounts receivable - net of uncollectible accounts of \$463,321 and \$542,631 for 2012 and 2011, respectively (Note 4 and 12)	930,252	1,345,328
Inventories (Note 5)	188,377	148,792
Prepaid expenses	47,024	46,902
Property, plant and equipment- net (Note 6)	1,361,249	1,237,582
Land (Notes 6)	442,000	442,000
Other assets:		
Land and building facilities held for future operations (Note 7)	929,195	-
Capitation medical services retentions (Note 9)	100,449	519,860
Other	120,542	-
	<b>\$ 7,875,518</b>	<b>\$ 6,167,183</b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 259,127	\$ 222,769
Accrued expenditures	939,837	944,952
Payroll and payroll taxes payable	351,907	268,955
IBNR reserves (Note 9)	719,073	696,842
Deferred revenues	-	1,256
Long-term debt, including current maturities of \$43,377 and \$37,066 for 2012 and 2011, respectively (Note 8)	71,152	74,131
Obligation under capital leases (Note 9)	5,700	10,442
	<b>2,346,796</b>	<b>2,219,347</b>
Total liabilities		
Net assets:		
Temporarily restricted (Note 10)	771,207	585,357
Unrestricted	4,757,515	3,362,479
	<b>5,528,722</b>	<b>3,947,836</b>
Total net assets		
	<b>\$ 7,875,518</b>	<b>\$ 6,167,183</b>

See notes to financial statements.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Activities

For the year ended March 31, 2012

	<b>Total</b>	<b>Temporarily Restricted Funds</b>	<b>Unrestricted Funds</b>
<b>REVENUES:</b>			
Federal grants and contracts (Note 9)	\$ 3,287,062	\$ 3,091,931	\$ 195,131
Premium revenue - PR Health Reform (Note 9)	5,072,392	-	5,072,392
Net patient service revenue (Note 11)	5,089,382	-	5,089,382
Wrap-around reimbursement	1,153,164	-	1,153,164
Other revenues	193,238	151	193,087
Net assets released from restrictions	-	(2,906,232)	2,906,232
	<b>14,795,238</b>	<b>185,850</b>	<b>14,609,388</b>
<b>EXPENSES:</b>			
Personnel services	3,667,293	-	3,667,293
Fringe benefits	408,217	-	408,217
Professional services	1,396,257	-	1,396,257
Claims paid and IBNR retention	4,372,351	-	4,372,351
Consumable supplies	2,071,320	-	2,071,320
Rental and utilities	404,987	-	404,987
Travel	34,968	-	34,968
Repairs and maintenance	299,162	-	299,162
Insurance	151,752	-	151,752
Depreciation	145,415	-	145,415
Interest	873	-	873
Bad debts	26,520	-	26,520
Other	235,237	-	235,237
	<b>13,214,352</b>	<b>-</b>	<b>13,214,352</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,580,886</b>	<b>185,850</b>	<b>1,395,036</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>3,947,836</b>	<b>585,357</b>	<b>3,362,479</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 5,528,722</b>	<b>\$ 771,207</b>	<b>\$ 4,757,515</b>

See notes to financial statements.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Activities

For the year ended March 31, 2011

	<u>Total</u>	<u>Temporarily Restricted Funds</u>	<u>Unrestricted Funds</u>
<b>REVENUES:</b>			
Federal and state grants and contracts (Note 9)	\$ 3,567,204	\$ 3,288,483	\$ 278,721
Premium revenue - PR Health Reform (Note 9)	5,244,375	-	5,244,375
Net patient service revenue (Note 11)	4,439,033	-	4,439,033
Wrap-around reimbursement	820,797	-	820,797
Other revenues	24,540	571	23,969
Net assets released from restrictions	-	(2,923,934)	2,923,934
	<u>14,095,949</u>	<u>365,120</u>	<u>13,730,829</u>
<b>EXPENSES:</b>			
Personnel services	3,493,921	-	3,493,921
Fringe benefits	371,505	-	371,505
Professional services	1,626,043	-	1,626,043
Claims paid and IBNR retention	4,068,365	-	4,068,365
Consumable supplies	2,146,540	-	2,146,540
Rental and utilities	317,334	-	317,334
Travel	32,307	-	32,307
Repairs and maintenance	269,229	-	269,229
Insurance	149,195	-	149,195
Depreciation	140,090	-	140,090
Interest	1,512	-	1,512
Bad debts	149,601	-	149,601
Other	518,427	-	518,427
	<u>13,284,069</u>	<u>-</u>	<u>13,284,069</u>
CHANGE IN NET ASSETS	<u>811,880</u>	<u>365,120</u>	<u>446,760</u>
NET ASSETS, BEGINNING OF YEAR, as previously reported	2,726,167	220,237	2,505,930
PRIOR PERIOD ADJUSTMENTS - (Note 13)	<u>409,789</u>	<u>-</u>	<u>409,789</u>
NET ASSETS, BEGINNING OF YEAR, as restated	<u>3,135,956</u>	<u>220,237</u>	<u>2,915,719</u>
NET ASSETS, END OF YEAR	<u>\$ 3,947,836</u>	<u>\$ 585,357</u>	<u>\$ 3,362,479</u>

See notes to financial statements.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Functional Expenses

For the year ended March 31, 2012

	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>
EXPENSES:			
Personnel services	\$ 3,667,293	\$ 2,472,252	\$ 1,195,041
Fringe benefits	408,217	271,991	136,226
Professional services	1,396,257	1,194,690	201,567
Claims paid and IBNR retention	4,372,351	4,372,351	-
Consumable supplies	2,071,320	2,022,882	48,438
Rental and utilities	404,987	-	404,987
Travel	34,968	5,732	29,236
Repairs and maintenance	299,162	41,056	258,106
Insurance	151,752	-	151,752
Depreciation	145,415	-	145,415
Interest	873	-	873
Bad Debts	26,520	-	26,520
Other	<u>235,237</u>	<u>38,686</u>	<u>196,551</u>
Total expenses	<u>\$ 13,214,352</u>	<u>\$ 10,419,640</u>	<u>\$ 2,794,712</u>

See notes to financial statements.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Statement of Functional Expenses

For the year ended March 31, 2011

	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>
EXPENSES:			
Personnel services	\$ 3,493,921	\$ 2,355,268	\$ 1,138,653
Fringe benefits	371,505	246,894	124,611
Professional services	1,626,043	1,452,983	173,060
Claims paid and IBNR retention	4,068,365	4,068,365	-
Consumable supplies	2,146,540	2,089,481	57,059
Rental and utilities	317,334	-	317,334
Travel	32,307	5,148	27,159
Repairs and maintenance	269,229	36,003	233,226
Insurance	149,195	-	149,195
Depreciation	140,090	-	140,090
Interest	1,512	-	1,512
Bad debts	149,601	-	149,601
Other	<u>518,427</u>	<u>27,021</u>	<u>491,406</u>
Total expenses	<u>\$ 13,284,069</u>	<u>\$ 10,281,163</u>	<u>\$ 3,002,906</u>

See notes to financial statements.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Statements of Cash Flows

For the years ended March 31, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,580,886	\$ 811,880
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	145,415	140,090
Bad debts	26,520	149,601
Loss on disposal of assets	9,392	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Grants and contracts receivable	(248,178)	464,948
Accounts receivable	388,556	(1,008,397)
Inventories	(39,585)	76,681
Prepaid expenses	(122)	(2,606)
Medical reserves	419,411	316,396
Other assets	-	12,500
Increase (decrease) in:		
IBNR reserves	22,231	(4,049)
Accounts payable	39,758	(134,304)
Deferred revenues	(1,256)	1,256
Accrued expenses	(5,115)	563,646
Payroll and payroll taxes payable	82,952	79,794
Total adjustments	839,979	655,556
Net cash provided by operating activities	2,420,865	1,467,436
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of properties and equipment	(247,275)	(414,269)
Purchase of land and building facilities held for future operations	(929,195)	-
Advances to acquire capital assets	(120,542)	-
Increase in certificates of deposit	(999,880)	-
Net cash used in investing activities	(2,296,892)	(414,269)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>		
Payment of long term debt	(37,578)	(49,421)
Payment of obligations under capital leases	(4,742)	(5,031)
Net cash used in financing activities	(42,320)	(54,452)
NET INCREASE IN CASH	81,653	998,715
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,364,467	1,365,752
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,446,120	\$ 2,364,467

See notes to financial statements.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**1. ORGANIZATION**

**Centro de Salud de Lares, Inc. (“the Institution”)** is a nonprofit entity organized in May 27, 1986, and is a comprehensive primary care program which provides primary health services to low income individuals and the medically underserved population in the Municipalities of Lares and Quebradillas, Puerto Rico.

The Program is supported by the contributions made by the Department of Health and Human Services, Public Health Service of the United States of America (HHS), the PRHD Health System and from program generated income. The major HHS contribution consists of federal funds under Section 330 of PHS Act, which is received by the Program who monitors and performs the payment function. The PRHD revenue consists of capitation revenues received through an HMO based on the number patient who select **the Institution** as their primary care center.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of accounting- The financial statements of the Institution have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of presentation- Financial statements presentation follows the recommendations of Financial Accounting Standards Board in its Accounting Standard Code (ASC 958-210 (formerly Statement of Financial Accounting Standards (SFAS) No. 117), Financial Statements of Non-for-Profit Organizations. Under FASB ASC 958-210, **the Institution** is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

Permanently restricted- Net assets subject to donor-imposed stipulations that should be maintained permanently by **the Institution**. Generally, the donors of such assets permit **the Institution** to use all or part of the income earned on the assets.

Temporarily restricted- Net assets subject to donor-imposed stipulations that may be fulfilled by actions of **the Institution** pursuant to those stipulations or that expire by the passage of time.

Unrestricted- Net assets that are not subject to donor-imposed stipulations.

Revenues from sources other than contribution are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Use of estimates- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents- For purposes of the statement of cash flows, **the Institution** considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Certificates of deposits - Certificates of deposits reported in the accompanying statements of financial position have an initial maturity of more than three months and are stated at cost.

Allowance for uncollectible accounts- The allowance for uncollectible accounts is an amount that management believes is adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of collectability of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

Inventories- Inventories consist of medicines, materials and medical supplies and are stated at cost under the first-in, first-out method, not in excess of market.

Property, plant and equipment and depreciation- Property, plant and equipment are recorded at cost. Donated property is recorded at its estimated fair value at the date of receipt. Depreciation is computed on the straight-line method based on the estimated useful life of each class of depreciable assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**The Institution's** capitalization policy considers as property and equipment tangible nonexpendable property with an acquisition cost of \$3,000 or more. Repair and maintenance are expensed as incurred. Expenses that increase the value or productive capacity of assets are also capitalized.

Gifts of long-lived assets such as land, building or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. **The Institution** reports expiration of restrictions as depreciation expense is recognized over time.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

In accordance with the provisions of FASB ASC 360-10-50-2 (formerly Statement of financial Accounting Standard No. 144, "Accounting for the Impairment of Long-Lived Assets") **the Institution** reviews for the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Federal grants and contracts- **The Institution** receives its grants and contracts support and revenues primarily from the U.S. Department of Health and Human Services and other federal and state agencies.

All grants and contracts are considered to be available for unrestricted use unless specifically restricted by the grantor. Amounts received that are designated for future periods or restricted by the grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Net patient service revenue- **The Institution** has agreements with third-party payers that provide for payments to **the Institution** at amount different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services rendered and are recognized in the period in which the Institution is obligated to provide services to its patients.

Premium revenue- **The Institution** has agreements with Health Maintenance Organizations ("HMOs") to provide primary health care services to State government's Medicaid participants. Under these agreements, **the Institution** receives a monthly fixed amount per individual member (PMPM) known as capitation fee. Capitation fee is due monthly and is recognized as revenues regardless of services actually performed by **the Institution**. In addition, the HMOs make fee for services payments to **the Institution** for certain covered services based upon discounted fees schedules. **The Institution's** health care premiums are reported as revenues in the month that enrolled members are entitled to health care benefits.

Donations and in-kind contributions- **The Institution** recognizes all donated services and materials at their fair market value at the time of donation.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Wraparound payments- The Commonwealth of Puerto Rico (the Commonwealth) adopted in its State Plan under the Social Security Act the prospective payment system methodology (PPS) for Federally Qualified Health Care Centers (FQHC) and Rural Health Clinics (RHC) in accordance with the requirements of the Benefit Improvement and Protection Act 2000 (BIPA).

Based on these requirements, commencing in January 1, 2001 the Commonwealth shall reimburse FQHC/RHC the Medicaid covered services under the new prospective payment system rate per visit. Due to the fact that (1) the Commonwealth administers its Medicaid System throughout the “Health Reform” and contracts with Health Maintenance Organizations (HMO) and, (2) pay providers for Medicaid covered services based on a capitation model, the Commonwealth shall provide for wraparound or supplementary payment when capitation payments are less than the amount that the FQHC/RHC would have received under new PPS.

Wraparound payments are recognized as income in the period that **the Institution** is entitled to receive those payments. The amount reported in the 2011 statements of activities includes wraparound payments for the period between July 1, 2010 and March 31, 2011. At present **the Institution** is plaintiff against the Puerto Rico Department of Health at the Federal court for wraparound payments for the period between July 1, 2006 and June 30, 2009. **The Institution** is also plaintiff at the State Court for wraparound payments for the periods between January 1, 2001 and June 30, 2006.

Health care services cost recognition- The cost of health care services provided or contracted for, is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not reported to **the Institution**. Medical claims, which has been incurred but not reported by providers, are estimated based on historic data; trends and other financial information submitted by the insurance carrier and amounted to \$719,073 and \$696,842 as of March 31, 2012 and 2011, respectively.

Income taxes- **The Institution** is a non-profit organization that is exempt from federal and state income tax under Section 501 (c)(3) of the Internal Revenue Code and Section 1101 (8) of the Puerto Rico Tax Code.

**The Institution** follows the provision of FASB ASC 740-10 (formerly FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes) which clarifies the accounting for uncertainty in income taxes recognized in an Organization’s financial statements in accordance with FASB ASC 740. Under the provision for this Interpretation, the Institution is required to evaluate its income tax position each year to determine whether **the Institution’s** tax provision is more-likely-than-not to be sustained if examined by the applicable taxing authority. Management of **the Institution** has evaluated its tax position and has concluded that this requirement had no effect on the Institution’s financial position or changes in its net assets.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**3. GRANTS- CONTRACTS RECEIVABLE**

Grants and contracts receivable as of March 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Early Intervention Services (Ryan White Part -C)	\$ 94,117	\$ -
Consolidated Health Centers and (ACA) Grants for New and Expanded Services under the Health Centers Program	198,064	-
Due from PR Primary Care Association (Immunization Funds)	16,598	21,608
Due from US Department of Health: ARRA - Capital Improvements	<u>1,651</u>	<u>40,644</u>
	<u>\$ 310,430</u>	<u>\$ 62,252</u>

**4. ACCOUNTS RECEIVABLE- NET**

Accounts receivable- net as of March 31, 2012 and 2011, consists of the following:

	<u>2012</u>	<u>2011</u>
Capitation fees	\$ 34,290	\$ 65,064
Third-party payors	672,425	1,202,865
Wraparound payments	288,291	288,291
PRDH (Emergency Room)	331,120	317,579
Others	<u>67,447</u>	<u>14,160</u>
	1,393,573	1,887,959
Less allowance for uncollectible accounts	<u>(463,321)</u>	<u>(542,631)</u>
	<u>\$ 930,252</u>	<u>\$ 1,345,328</u>

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**5. INVENTORIES**

Inventories are comprised of the following:

	2012	2011
Drugs and medicines	\$ 111,115	\$ 87,465
Medical and surgical supplies	28,369	21,360
Laboratories supplies	22,716	15,556
Dental supplies	9,238	10,189
X-Ray supplies	7,513	3,773
Office supplies	9,426	10,449
	\$ 188,377	\$ 148,792

**6. PROPERTY, PLANT AND EQUIPMENT- NET**

Property, plant and equipment as of March 31, 2012 and 2011, consist of the following:

	2012	2011
Building and building improvements	\$ 1,495,506	\$ 1,481,636
Furniture and equipment	1,391,884	1,421,344
Motor vehicles	77,302	47,502
Softwares	82,633	157,456
	3,047,325	3,107,938
Less: Accumulated depreciation	(1,686,076)	(1,870,356)
Property, plant and equipment	\$ 1,361,249	\$ 1,237,582
Land	\$ 442,000	\$ 442,000

**7. LAND AND BUILDING FACILITIES HELD FOR FUTURE OPERATIONS**

**The Institution** acquired as per deed dated February 8, 2012 land and building facilities located at Quebradillas, Puerto Rico to relocate its operation in that municipality. **The Institution** began operations on such facilities on July 2012 but is still in process of renovations of the building.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**8. LONG-TERM DEBT**

As of March 31, 2012 and 2011 consist of the following:

	2012	2011
Note payable to the State Insurance Fund Corporation (CFSE) with an initial payment of \$12,355 and thirty six equal and consecutive monthly installments of \$3,089. The note bears no interest and is due on March 2013.	\$ 37,065	\$ 74,131
Note payable to Toyota Credit in 60 monthly payments of 648 including interest at 4.70%. Secured by motor vehicle, due on February 2017.	<u>34,087</u>	<u>-</u>
	<u>\$ 71,152</u>	<u>\$ 74,131</u>

Current maturities of long-term debt for the next five years are as follows:

2013	\$ 43,377
2014	6,614
2015	6,932
2016	7,264
2017	<u>6,965</u>
	<u>\$ 71,152</u>

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**9. COMMITMENTS AND CONTINGENCIES**

Capital leases

**The Institution** has entered into a direct financing type lease agreement for motor vehicles which have been classified as capital leases for financial statements purpose.

Future minimum lease payment under the capital leases at March 31, 2012 together with the present value of the minimum lease payments are as follows:

**Year ending March 31,**

2013	\$ 3,351
2014	<u>2,793</u>
Total minimum lease payments	6,144
Less: amount representing interest	<u>444</u>
Present value of future minimum lease payments	5,700
Less: current portion	<u>3,006</u>
Obligation under capital lease - net of current portion	<u>\$ 2,694</u>

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**9. COMMITMENTS AND CONTINGENCIES, Continued**

Operating leases

**The Institution** operates its program activities in the Municipality of Quebradillas in a leased facility for a monthly rent payment of \$4,842. There is no formal lease agreement between **the Institution** and the Puerto Rico Department of Health, the landlord. Since August 2005, the landlord has ceased to charge **the Institution** for rent. In addition, and due to controversies between the Institution, the landlord and the Municipality of Quebradillas, **the Institution**, since May 2007, suspended the monthly rent payments. However, rent expense is accrued on a monthly basis. Rent expense for March 31, 2012 and 2011 amounted to \$58,104, respectively. (See Note 7)

Puerto Rico Health Reform Contract- Lares and Quebradillas Health Center

**The Institution** entered into two manage care contracts (“the Contract”) with a Health Maintenance Organization (HMO) Triple S, Inc. to provide health services to the designated beneficiaries of the health insurance plan of the Government of the Commonwealth of Puerto Rico in the Municipalities of Lares and Quebradillas. Pursuant to the Contract, among other things, **the Institution** agrees and commits itself to provide all covered health services to the designated beneficiaries under the dispositions of the health insurance plan of the Government of the Commonwealth of Puerto Rico, which are specified in the Contract. In consideration to the covered services rendered by **the Institution**, Triple S will pay a fixed amount per beneficiary per month, (known as capitation), as defined in the Contract. The capitation will be subject to retentions of money for the Medical Services Reserve for the payment of IBNR claims. **The Institution** is financially responsible for the covered services included in the Physicians Fund as well as, for services included in the Institutional Fund (hospital, high tech laboratories and other).

The Contract was terminated on September 30, 2010 with the end of the “Old Health Reform”. A “new health reform” called “Mi Salud” began on October 1, 2010 and MCS-Health Management Options (“MCS-HMO”) was at first, selected as the Health Maintenance Organization by the Commonwealth of Puerto Rico to manage and provide health services to the designated beneficiaries in the northwest area in which the Lares and Quebradillas’ Health Center operate. Although a new contract was issued, it was never signed by the parties. On August 2011 the relationship between MCS-HMO and the Commonwealth of Puerto Rico reached to the end and on September 2011, Triple S Salud was selected as the Third party Administrator by the Commonwealth of Puerto Rico and a contract was signed by **the Institution** with Triple S Salud on April 26, 2012.

The amount of money retained by HMOs to cover incurred but not reported (IBNR) claims as of March 31, 2012 and 2011 amounted to \$100,449 and \$519,860, respectively.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**9. COMMITMENTS AND CONTINGENCIES, Continued**

Federal grants and contracts

Programs supported by Federal and Commonwealth grants are subject to program compliance audits by the grantor agencies in order to determine compliance with requirements and conditions of such grants. Questioned costs have been reported in the accompanying Schedule of Findings and Questioned Costs. Those findings and questions costs are subject to evaluation of the Federal awarding agency. If such costs are disallowed as a result of a non compliance with applicable requirements, funds may be required to be reimbursed to the applicable grantor agencies. The possible outcome on this matter has not been determined by management.

Legal claims

**The Institution** was a defendant in a lawsuit, filed by the Municipality of Quebradillas alleging reimbursement of certain costs totaling \$1,435,078, as per alleged contract agreement in accordance with Municipality statement. The case was rejected by the Courts and appealed by the Municipality to the Puerto Rico Supreme Court. The Supreme Court resolved to reserve the ruling of the Appellate court and remanded the case to the primary forum for further proceedings on February 2011. **The Institution's** legal counsel has advised that a favorable outcome is unlikely and based on conversations with the plaintiff's legal advisor, has determined that the potential loss could be between a range of \$300,000 and \$400,000. Accordingly, a contingency accrual of \$400,000 has been charged to operations in the accompanying financial statements for 2011. However, during the year ended March 31, 2012, **the Institution** reach to a settlement in the amount of \$202,569, resulting in a reduction of \$197,430 of the previously accrual.

During the year, **the Institution** was sued by an employee alleging violations to the Federal protection against sex and pregnancy discrimination under Title VII of the Civil Rights Act of 1964, 29 U.S.C. 2000 et seq., and the Puerto Rico's Article 1802 of the Puerto Rico Civil Code requesting \$500,000 for compensation damages and an additional amount for punitive damages. It is the opinion of **the Institution's** lawyer that an unfavorable outcome is remote.

**10. NET ASSETS**

Temporarily restricted net assets- Temporarily restricted net assets in the statement of financial position consist of Section 330 funds (Consolidated Health Centers), ARRA funds, (increase demand for services and capital improvement funds) and funds for early interventions services and comprehensive medical services for HIV patients (Ryan White Part C). Section 330 funds are available for primary and preventive health services to medically underserved populations. ARRA funds are available to enable health centers to increases services a existing sites and to address spikes in demand to serve uninsured persons (increase demand for services) and to carry out alteration, repair and renovation of health facilities (capital improvement). Ryan White funds are available to improve the availability, accessibility and organization of ambulatory health services to persons infected with HIV.

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**11. NET PATIENT SERVICES REVENUE**

**The Institution** has agreements with third-party payors, including Medicare, that provide for reimbursement to the Institution at rates different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between **the Institution's** standard rates for services and the amount reimbursed by third-party payors.

A summary of gross and net patient service revenue for the years ended March 31, 2012 and 2011 are as follows:

	2012	2011
Gross patient service revenue	\$ 5,565,907	\$ 5,107,934
Less provision for contractual allowance	(476,525)	(668,901)
	\$ 5,089,382	\$ 4,439,033

**12. CONCENTRATION OF CREDIT RISK**

**The Institution** maintains its cash balance in a commercial bank and various credit unions located in Puerto Rico. Commercial bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and credit unions are insured by the "Corporación para la Supervisión y Seguros de Cooperativas de Puerto Rico" (COSSEC) up to \$250,000. At March 31, 2012 and 2011, the significant concentration of credit risk for uninsured cash balances, including certificates of deposit, amounted to \$2,027,235 and \$2,312,041, respectively.

Also, **the Institution** grants credit without collateral to its patients, most of who are local residents and are insured under third-party payors agreements. The mix of receivables from patients and third-party payors at March 31, 2012 and 2011 were as follows:

	2012	2011
Capitation fees	2%	3%
Wraparound payments	21%	15%
Patients and third-party payers	48%	64%
Others	29%	18%
	100%	100%

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Notes to Financial Statements

As of and for the years ended March 31, 2012 and 2011

**13. RESTATEMENT OF 2010 FINANCIAL STATEMENTS**

During the year ended March 31, 2011, **the Institution** noted that certain assets and liabilities had been understated and overstated, respectively, as of March 31, 2010, and accordingly, the beginning net assets in the 2011 financial statements, has been adjusted to reflect the correction of such errors.

As summary of the effects in the beginning net assets are as follows:

	Unrestricted Net Assets
Net assets at beginning of year, as previously reported	\$ 2,726,167
Corrections of errors:	
Understatement of contract receivable - grants	220,549
Understatement of accounts receivable - third party payor - Pharmacy MC 21	100,262
Overstatement of accounts payable - Ryan White program	88,978
	409,789
	\$ 3,135,956

**14. SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION**

Non cash transactions- During the year **the Institution** acquired a motor vehicle in the amount of \$34,599 with the issuance of a long term debt.

Other cash flows transactions- Interest paid for the years ended March 31, 2012 and 2011 amounted to \$873 and \$1,512, respectively. Cash paid during the years for income taxes amounted to \$0.

**15. SUBSEQUENT EVENTS**

Management of **the Institution** has evaluated subsequent event through November 15, 2012 the date which the financial statements were available to be issued.

On April 2012, **the Institution** was granted with \$500,000 award from the Capital Development – Immediate Facility Improvements Program (CD-IFI). The grant funds will be used to perform major improvements and renovation to the facility in Lares.

On June 2012, **the Institution** requested a Change in Scope (CIS) from the US Department of Health and Human Resources (HRSA) to relocate one approved site to a new location. The CIS also include changes in the previous approved operational budget for the grant. As discussed in Note 7, **the Institution** relocated its Quebradillas facilities to a new land and building acquired during fiscal year 2012 and began its operations during July 2012, except clinical laboratory and X-Ray Departments that are subject to the requirements and licenses of the Puerto Rico Department of Health, which are currently operating in the old facilities. The new facility is in the process of renovation and improvements of the building.

**SUPPLEMENTARY INFORMATION**

**CENTRO DE SALUD DE LARES, INC.**  
**(A NONPROFIT CORPORATION)**

Supplemental Schedule – Combining Statement of Activities

For the year ended March 31, 2012

	-----Temporarily Restricted Funds-----					Unrestricted Funds Program Income
	Total	Consolidated Health Center including ACA funds	ARRA CIP	ARRA IDS	Ryan White Title III	
REVENUES:						
Federal and state grants and contracts	\$ 3,287,062	\$ 1,983,441	\$ 250,815	\$ 64,492	\$ 793,183	\$ 195,131
Premium revenue - PR Health Reform	5,072,392	-	-	-	-	5,072,392
Net patient service revenue	5,089,382	-	-	-	-	5,089,382
Wrap-around reimbursement	1,153,164	-	-	-	-	1,153,164
Other	193,238	151	-	-	-	193,087
<b>Total revenues</b>	<b>14,795,238</b>	<b>1,983,592</b>	<b>250,815</b>	<b>64,492</b>	<b>793,183</b>	<b>11,703,156</b>
EXPENSES:						
Personnel services	3,667,293	1,484,572	-	25,611	113,033	2,044,077
Fringe benefits	408,217	161,154	-	2,142	13,811	231,110
Professional services	1,396,257	108,310	-	35,497	490,407	762,043
Claims paid and IBNR retention	4,372,351	-	-	-	-	4,372,351
Consumable supplies	2,071,320	195,588	-	-	147,673	1,728,059
Rental and utilities	404,987	-	-	-	-	404,987
Travel	34,968	-	-	-	12,094	22,874
Repairs and maintenance	299,162	-	-	-	482	298,680
Insurance	151,752	30,807	-	1,242	-	119,703
Depreciation	145,415	299	34,403	-	2,015	108,698
Interest	873	-	-	-	-	873
Bad Debts	26,520	-	-	-	-	26,520
Other	235,237	3,009	28,360	-	15,723	188,145
<b>Total expenses</b>	<b>13,214,352</b>	<b>1,983,739</b>	<b>62,763</b>	<b>64,492</b>	<b>795,238</b>	<b>10,308,120</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,580,886</b>	<b>(147)</b>	<b>188,052</b>	<b>-</b>	<b>(2,055)</b>	<b>1,395,036</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>3,947,836</b>	<b>1,744</b>	<b>562,971</b>	<b>6,180</b>	<b>14,462</b>	<b>3,362,479</b>
<b>NET ASSETS, ENDING OF YEAR</b>	<b>\$ 5,528,722</b>	<b>\$ 1,597</b>	<b>\$ 751,023</b>	<b>\$ 6,180</b>	<b>\$ 12,407</b>	<b>\$ 4,757,515</b>

**SINGLE AUDIT SECTION**

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

Schedule of Expenditures of Federal Awards

For the year ended March 31, 2012

<b>Federal Grantor/ Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Health and Human Services:</u></b>		
<u>Direct programs:</u>		
Consolidated Health Centers (Community Health Centers)	93.224	\$ 1,209,045
(Affordable Care Act) Grants for New and Expanded Services Under the Health Center Program	93.527	774,395
ARRA - Health Center Integrated Services Development Initiative- (Increase Services to Health Center)	93.703	64,492
ARRA - Health Center Integrated Services Development Initiative- (Capital improvement program)	93.703	250,857
Grants to Provide Outpatient Early Intervention Services with respect to HIV Disease (Ryan White - Part C)	93.918	<u>793,173</u>
Total Expenditures of Federal Awards		<u><u>\$ 3,091,962</u></u>

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

Notes to Schedule of Expenditures of Federal Awards

For the year ended March 31, 2012

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (“the Schedule”) includes the federal grant activity of **Centro de Salud de Lares, Inc.** (“**the Institution**”) under the programs of the federal government for the year ended March 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audit of States Local Government and Nonprofit Organizations*. Because the schedule presents only a selected portion of the operations of **the Institution**, it is not intended to and does not present the financial position, changes in net assets or cash flows of **the Institution**.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C - FEDERAL CFDA NUMBER**

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

To the Governing Board of  
**Centro de Salud de Lares, Inc.**

We have audited the financial statements of **Centro de Salud de Lares, Inc.** (a nonprofit corporation) as of and for the year ended March 31, 2012, and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of **Centro de Salud de Lares, Inc.** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered **Centro de Salud de Lares, Inc.**'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Centro de Salud de Lares, Inc.**'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Centro de Salud de Lares, Inc.**'s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Centro de Salud de Lares, Inc.**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Governing Board, others within the entity, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Rodriguez, Rivera & Torres PSC

Mayagüez, Puerto Rico  
November 15, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A -133**

To the Governing Board of  
**Centro de Salud de Lares, Inc.**

## **Compliance**

We have audited **Centro de Salud de Lares, Inc.**'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Centro de Salud de Lares, Inc.**'s major federal programs for the year ended March 31, 2011. **Centro de Salud de Lares, Inc.**'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of **Centro de Salud de Lares, Inc.**'s management. Our responsibility is to express an opinion on **Centro de Salud de Lares, Inc.**'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Centro de Salud de Lares, Inc.**'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **Centro de Salud de Lares, Inc.**'s compliance with those requirements.

As described in items 2012-III-1 and 2012-III-3 in the accompanying schedule of findings and questioned costs, **Centro de Salud de Lares, Inc.** did not comply with requirements regarding allowable costs/cost principles and earmarking that are applicable to its Outpatient Early Intervention Services with respect to HIV Disease (Ryan White - Part C) program. Compliance with such requirements are necessary, in our opinion, for **Centro de Salud de Lares, Inc.** to comply with requirements applicable to that program.

As described in item 2011-III-4 in the accompanying schedule of findings and questioned costs, Centro de Salud de Lares, Inc. did not comply with requirements regarding allowable costs/cost principles that is applicable to its ARRA-Health Center Integrated Services Development Initiative program. Compliance with such requirement is necessary, in our opinion, for **Centro de Salud de Lares, Inc.** to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, **Centro de Salud de Lares, Inc.** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are require to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-III-2.

### **Internal Control over Compliance**

Management of **Centro de Salud de Lares, Inc.** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Centro de Salud de Lares, Inc.**'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Centro de Salud de Lares, Inc.**'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-III-1, 2012-III-3 and 2012-III-4 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-III-2 to be a significant deficiency.

**Centro de Salud de Lares, Inc.'s** responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit **Centro de Salud de Lares, Inc.'s** responses and corrective action plan and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Management, Governing Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



*Rodriguez, Mirre J Torro PSC*

Mayagüez, Puerto Rico  
November 15, 2012

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended March 31, 2012

**I. Summary of audit results:**

**Part I - Financial Statements**

- |  |   |   |
|--|---|---|
| 1. Type of auditor's report issued:                      | <input checked="" type="checkbox"/> Unqualified opinion | <input type="checkbox"/> Qualified opinion        |
|  | <input type="checkbox"/> Adverse opinion                | <input type="checkbox"/> Disclaimer of opinion    |
| 2. Material weakness(es) identified:                     | <input type="checkbox"/> Yes                            | <input checked="" type="checkbox"/> No            |
| 3. Significant deficiency(ies) identified:               | <input type="checkbox"/> Yes                            | <input checked="" type="checkbox"/> None reported |
| 4. Noncompliance material to financial statements noted: | <input type="checkbox"/> Yes                            | <input checked="" type="checkbox"/> No            |

**Part II - Federal Awards**

- |   |  |   |
|---|--|---|
| 1. Material weakness(es) identified:  | <input checked="" type="checkbox"/> Yes      | <input type="checkbox"/> No                           |
| 2. Significant deficiency(ies) identified   | <input checked="" type="checkbox"/> Yes      | <input type="checkbox"/> No                           |
| 3. Type of report issued on compliance for major programs:  | <input type="checkbox"/> Unqualified opinion | <input checked="" type="checkbox"/> Qualified opinion |
|   | <input type="checkbox"/> Adverse opinion     | <input type="checkbox"/> Disclaimer of opinion        |
| 4. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A - 133? | <input checked="" type="checkbox"/> Yes      | <input type="checkbox"/> No                           |

5. Major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.224	Consolidated Health Centers - (Community Health Centers)
93.527	(Affordable Care Act) Grants for New and Expanded Services Under the Health Center Program
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.703	ARRA - Health Center Integrated Services Development Initiative (Increase Services to Health Centers) (Capital Improvement Program)

- |   |   |  |
|---|---|--|
| 6. Dollar threshold used to distinguish Type A and Type B programs: | <input checked="" type="checkbox"/> \$300,000 |  |
| 7. Low-risk auditee   | <input type="checkbox"/> Yes                  | <input checked="" type="checkbox"/> No |

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

II. Findings related to the financial statements reported in accordance with GAGAS:

None reported

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

III. Findings and Questioned Costs for Federal Awards:

<b>Reference Number:</b>	2012-III-1
<b>Agency:</b>	U.S. Department of Health and Human Services
<b>Pass-through Entity:</b>	N/A
<b>Program:</b>	Guide to Provide Outpatient Early Intervention Services with respect to HIV Disease
<b>CFDA Number:</b>	93.918
<b>Regulation/Requirement:</b>	Allowable Costs/cost principles
<b>Type:</b>	Material noncompliance; Material weakness – internal controls over compliance

**Criteria:**

Pursuant to OMB Circular A-122, (2 CFR part 230(A) (4) (1)) costs must be adequately documented to be allowable under an award and requires among other things, that a cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it is incurred specifically for the award (should represent actual (incurred) costs but not budgeted or projected costs).

**Condition:**

Centro Salud de Lares, Inc. (“CSL”) is recording most of its Ryan White - Part C program award costs based on budgeted and/or projected amounts.

**Context:**

As part of our audit procedures related to allowable costs/cost principles we:

- Interviewed CSL’s Finance Department and Ryan White personnel and obtained an understanding on how costs are charged to the Ryan White Part C program,
- Obtained and evaluate a budget versus actual analysis prepared by client at year end, and
- Select a sample of 13 charges made to the award to evaluate compliance with program regulations.

CSL serves as grantee and lead agency of a collaborative network of nine nonprofit organizations (including the same Centro de Salud de Lares, Inc. (CSL)) representing eighteen community health centers (CHC) in the north central and western region of the Commonwealth of Puerto Rico. The Consortium, known as the Lares Part C Ryan White Consortium, provides a continuum of HIV care in eighteen rural municipalities/towns in Puerto Rico. Services provided include primary medical care, medications, medical case management, HIV testing, counseling, risk reduction, and adherence counseling, laboratory and pharmacy.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

III. Findings and Questioned Costs for Federal Awards (continued):

**Reference Number:** 2012-III-1 (continued)

Most of the program costs or charges are billed by members of the Consortium, including CSL, for medical care provided to its patients. Invoices are prepared by the members of the Consortium based on guidelines and a contract agreement between CSL and members of the Consortium. In reviewing those billings, charges to general ledger and budget versus actual analysis we have observed the following situations:

- (a) Charges for pharmaceuticals and nutritional supplements are being recorded in general ledger using invoices sent by the members of the Consortium, including CSL. However, such invoices are being prepared using a drug price listing which was prepared by CSL based on historical costs which include a “markup” of approximately 25%. This 25% markup does not represent actual costs of acquiring pharmaceuticals and nutritional supplements charged to the Ryan White - Part C program. Total questioned costs related to this matter amounts to \$26,922.
- (b) Charges for laboratory services are being recorded in general ledger using invoices sent by CSL and its Quebradillas’ satellite clinic. However, such invoices are being prepared based on the CSL’s fees schedule (“price” list for services established and designed to cover CLS’s reasonable cost in providing services to its patients) less any amount collected from third parties. Those claims do not represent actual costs, like vendor invoices for references labs, material, salaries and other costs associated in providing such services. Because the scope of our audit procedures do not extend to all members of the Consortium and is limited to CSL (including Quebradillas), we cannot conclude if this deficiency encompasses the rest of the Consortium’s members. Total questioned costs related to this matter amounts to \$3,192.
- (c) Charges for medical and case manager services are recorded in general ledger based on budgeted amounts. Such services are recorded using invoices prepared by CSL and other members of the Consortiums only considering the amounts allocated by the Consortium to each member based on approved budget. Those services are billed monthly without regard to services actually performed by the members. Total questioned costs related to this matter amounts to \$318,624.
- (d) The salary of the Executive Director, which is partially allocated to the Ryan White - Part C program to oversee its implementation and evaluation, is also recorded based on the approved budget. CSL was unable to provide evidence of activities and/or effort reports for the portion of the Executive Director’s salary charged to the program. Total questioned costs related to this matter amounts to \$3,993.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

III. Findings and Questioned Costs for Federal Awards (continued):

**Reference Number:** 2012-III-1 (continued)

(e) Amounts paid to the computer programmer (IT employee) whose salary is partially financed with Ryan White - Part C program funds, is also determined based on approved budget. CSL was unable to provide evidence of activities and/or effort reports to support amounts charged to the program. Total questioned costs related to this matter amounts to \$4,050.

**Cause and effect:**

CSL lacks of appropriate application of federal regulations related to allowable costs/costs principles requirements including written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions OMB Circular A-122.

**Questioned costs:**

Total questioned costs related to items (a) to (e) above were estimated in \$356,781.

Amounts questioned for items (b) to (e) were determined based on sample transactions tested as part of our disbursement test and by identification of the remaining population of the abovementioned transactions in general ledger.

For item (a) - drugs and nutritional supplements, only the 25% "markup" was determined to be unallowable and questioned.

Questioned costs of item (c) related to medical and case manager services amounts to \$318,624. This amount represents the net cost recorded in accounting records based on the budgeted amount (\$378,699) over an estimate of actual costs (\$60,075). This estimate of actual costs was based on certain facts and assumptions provided by CSL's Ryan White - Part C Program Director as follows: (1) Encounters - actual encounters reported in *Careware* system for medical services; it was informed by the Program Director that in 99.7% of cases there is a case manager encounter for every medical encounter. Therefore, medical encounters were also used to estimate costs for case manager services; (2) Hours per encounter - an average hour per encounters was estimated by the Program Director in .50 hours for medical services and 1.50 hours for case manager services; (3) Rate per hours - rate per hours encounter were obtained from approved budget and were based in a pay rate of \$80,000 for one full time equivalent (FTE) in case of medical services and in \$30,000 for one FTE in case of case managers. Such facts and assumptions were considered reasonable in estimate medical and case manager service costs.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

III. Findings and Questioned Costs for Federal Awards (continued):

**Reference Number:** 2012-III-1 (continued)

**Recommendation:**

We recommend to the management of CSL to: (a) prepare written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of applicable Federal cost principles, (b) charges for pharmaceuticals, nutritional supplements and laboratory services should be based on vendor invoices, (c) vendors invoices resulting from the acquisitions of those goods and services should be kept as support of amounts billed and sent to the Consortium, (d) charges for medical and case manager services should be billed based actual hours and pay rates of those professionals who provide services and should be supported by payrolls, time and or activity reports; invoices should clearly describe time and effort information so it can be easily corroborated at later time and, (e) charges for salaries and personnel compensation should be based on time and or activities reports.

**Management response:**

See management response in corrective action plan at page 48.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

III. Findings and Questioned Costs for Federal Awards (continued):

<b>Reference Number:</b>	<u>2012-III-2</u>
<b>Agency:</b>	U.S. Department of Health and Human Services
<b>Pass-through Entity:</b>	N/A
<b>Program:</b>	Consolidated Health Centers (Community Health Centers) & (ACA) Grants for New and Expanded Services under the Health Center Program
<b>CFDA Number:</b>	93.224 and 93.527
<b>Regulation/Requirement:</b>	Reporting
<b>Type:</b>	Instance of noncompliance; significant deficiency – internal controls over compliance

**Criteria:**

Pursuant to terms and conditions of notice of grant award 2 H80CS00353-10 (reporting requirements), CSL is required to submit no later than July 30, 2012 a Federal Financial Report (FFR) (SF-425) which reflect cumulative expenditures for the project period

**Condition:**

CSL submitted the required Federal Financial Report three days late.

**Context:**

As part of our audit procedures, we obtained a copy of the abovementioned submitted report to review if amounts reported were supported by the accounting records, has been prepared in accordance with program guidelines and regulations and has been submitted on time to the Federal awarding agency.

Based on the evidence provided by the finance department of CSL, we have noted that CSL submitted the FFR on August 2, 2012.

**Cause and effect:**

Based on inquiries to personnel of the Finance Department, we were informed that the report was submitted late because CSL's accounting records were not completed and were in process of being reviewed and adjusted as of the report due date.

**Questioned Costs:**

None

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

III. Findings and Questioned Costs for Federal Awards (continued):

***Reference Number:***                    2012-III-2 (continued)

***Recommendation:***

We strongly recommend an in-depth review of the accounting records, including program expenditures, on a monthly basis to assure all account balances in general ledger have been properly analyzed, are correct, and are properly supported that permit the preparation of require federal financial reports on time.

***Management response:***

See management response in corrective action plan at page 48.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

III. Findings and Questioned Costs for Federal Awards (continued):

<b>Reference Number:</b>	<u>2012-III-3</u>
<b>Agency:</b>	U.S. Department of Health and Human Services
<b>Pass-through Entity:</b>	N/A
<b>Program:</b>	Guide to Provide Outpatient Early Intervention Services with respect to HIV Disease
<b>CFDA Number:</b>	93.918
<b>Regulation/Requirement:</b>	Earmarking
<b>Type:</b>	Material noncompliance; Material weakness – internal controls over compliance

**Criteria:**

Grantees must allocate their costs according to the following Part C cost categories: early intervention services, core medical services, support services, clinical quality management, and administrative (42 USC 300ff-51 (b) (1) (2)). Not more than 10 percent of the approved Federal grant funds may be used for administrative expenses (42 USC 300ff-64(g) (3)).

**Condition:**

CSL lacks of controls to assure program salaries and fringe benefits are spent in accordance with the abovementioned costs categories. Our earmarking tests revealed that CSL spent 16% in the administrative cost category.

**Context:**

As part of our audit procedures we obtained and reviewed a budget versus actual analysis prepared by client at year-end. We also obtained and reviewed a detailed list of Ryan White - Part C program expenses recorded in the accounting records at June 30, 2011 (budget period). In reviewing those records we have noted that although CSL has a chart of account designed to record program expenses based on Ryan White cost categories, CSL is recording all the salaries and fringe benefits of the Ryan White - Part C program in the administrative expense cost category. In reviewing the approved budget we have noted that there are at least, two employees that their efforts should be allocated in more than one budget category. There is also one employee that spent 100% of her time in clinical quality management, however, related costs were recorded under the administration category. The budget versus actual analysis performed by CSL's Finance Department does not consider the Ryan White - Part C program cost categories as mentioned in the criteria section of the finding. As part of our audit procedures the percentage of total administrative expenses to the total program expenses was recalculated based on the expenses recorded at program or budget period. We noted that CSL reached 16% in administrative costs.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

III. Findings and Questioned Costs for Federal Awards (continued):

**Reference Number:** 2012-III-3 (continued)

***Cause and effect:***

All program salaries and fringe benefits expenses are being recorded in the administrative category without regard program costs categories as required by program regulation. CSL lacks of activities and/or effort report that permit an appropriate allocation of salaries and fringe benefits between the abovementioned cost categories. CSL's Finance Department is only performing a comparison of actual expenses with budgeted amounts by natural costs (i.e. salaries, fringe benefits, travel, contractual, supplies, etc.).

Due to the manner by which CSL is recording program salaries and fringe benefits we were unable to conclude that CSL is in compliance with the earmarking requirements.

***Questioned Costs:***

None

***Recommendation:***

CSL should prepare written policies and procedures for recording program costs in accordance with the provisions of the Ryan White program regulations. Salaries and fringe benefits should be allocated to the program, at the origin, to the correct costs categories and based on payroll, activities and/or effort reports, especially for those employees that their time or effort should be allocated to more than one budget category.

***Management response:***

See management response in corrective action plan at page 48.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

III. Findings and Questioned Costs for Federal Awards (continued):

<b>Reference Number:</b>	<u>2012-III-4</u>
<b>Agency:</b>	U.S. Department of Health and Human Services
<b>Pass-through Entity:</b>	N/A
<b>Program:</b>	ARRA - Health Center Integrated Services Development Initiative - <i>(Capital Improvement Program)(CIP)&amp;(Increase Demand Service Program)(IDS)</i>
<b>CFDA Number:</b>	93.703
<b>Regulation/Requirement:</b>	Allowable costs/cost principles
<b>Type:</b>	Material noncompliance; Material weakness – internal controls over compliance

**Criteria:**

Grantee may only charge to Federal programs only direct costs that are incurred specifically for the awards and have been previously approved by the awarding agency in its proposal budget or indirect costs (common or joint cost, i.e. general and administrative expenses) that have been also budgeted and approved by the awarding agency, unless an indirect cost rate proposal had been negotiated in advance (OMB Circular A-122) (HHS Grant Policy Statement 2007).

**Condition:**

As a result of our allowable costs/cost principles disbursement test we noted the following situations:

- CSL charged to the ARRA–CIP program the salary of an employee for messenger services which has not been previously budgeted and approved by the awarding agency.
- CSL charged to the ARRA – IDS program the salary of the Finance Director which has not been previously budgeted and approved by the awarding agency.

**Context:**

We tested a sample of seventy-one charges to major federal award programs in the general ledger to evaluate for compliance with programs requirements and regulations. Seventeen of those costs were directly charged to the ARRA-Capital improvement (CIP) and Increase Demand Service (IDS) programs. In one case we noted that CSL charged to the CIP program the salary of a temporary employee for messenger services and in one case CSL charged to the IDS program the salary of the Finance Director. Both salaries were not considered in the original approved budgets and therefore were not approved by the awarding agency. IDS and CIP funds were awarded to increases services at existing sites and to address spikes in demand to serve uninsured persons (increase demand for services) and to carry out alteration, repair and renovation of health facilities (capital improvement). Those charges are general and/or administrative expenses that do not provide direct benefit to the IDS and CIP

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended March 31, 2012

III. Findings and Questioned Costs for Federal Awards (continued):

***Reference Number:*** 2012-III-4 (continued)

programs and therefore, they should not be charged to the ARRA awards, unless previously approved by the awarding agency.

***Cause and effect:***

Key personnel lack of sufficient understanding of processes and controls to assess and correctly identify allowable and/or unallowable costs before recording charges under a Federal program. CSL does not compare, review, and analyze federal funds expenditures recorded in general ledger with the approved budgets on a monthly basis. In addition, CSL lacks of appropriate application of federal regulations related to allowable costs/costs principles requirements including written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions OMB Circular A-122.

***Questioned Costs:***

Questioned costs include salaries and fringe benefits of both employees and were estimated in \$17,056. Questioned costs were estimated based on a detail (subsidiary) of ARRA expenses maintained by CSL.

***Recommendation:***

We recommend training programs, both formal and informal, to provide for knowledge and skills necessary to determine activities and costs allowed. CSL should design and implement written procedures to determine the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles. We strongly recommend CSL to evaluate and analyze the budget versus actual results on a monthly basis. Unusual trends, discrepancies and or unexpected results, including significant surpluses and/or deficits, should be investigated and resolved to make sure CSL charges to Federal programs only allowable costs.

***Management response:***

See management response in corrective action plan at page 48.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended March 31, 2012

***Fiscal year ended:*** 2011

***Finding number:*** 2011-II-1

***Condition:*** Accounts Receivable and Accounts Payable - beginning balances:

During the audited period the following situations were noted

- The Institution has failed in recording accounts receivable from Pharmacy-MC21 for \$100,262 at March 31, 2010. Billing revenues from pharmacy MC21 during the fiscal year 2009-2010 were recorded under the cash basis of accounting method.
- Due to inadequate controls and procedures to request and drawdown federal funds, the Institution failed to record the amount of \$220,549 in accounts receivable from the Ryan White program at March 31, 2010.
- Several years ago, the Institution incorrectly recorded an account payable for the Ryan White program in the amount of \$88,978 and for which no reconciliation and or support has been provided as of March 31, 2011.

Management of the Institution is failing in performing an in-depth review of accounting records at year end. Management of the Institution lacks of an accounting policy manual which set forth procedures for reviewing and recording accounting transactions.

As a result of these situations, the unrestricted net assets at beginning of the year was understated by a net amount of \$409,789

***Status:*** Corrective action was taken.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued**

Year ended March 31, 2012

***Fiscal year ended:*** 2010 & 2011

***Finding number:*** 2010-III-3  
2011-III-1

***Condition:*** Cash Management - Our review of internal controls and procedures revealed that the Institution has no controls and/or procedures in place to ensure that minimize the time elapsing between the transfer of funds from the U.S. Treasury and their disbursement. In additions interests earned on advances in excess of \$250 are not being remitted to the Department of Health and Human Services, Payment Management System.

***Status:*** Corrective action was taken

***Fiscal year ended:*** 2011

***Finding number:*** 2011-III-2

***Condition:*** Program Income - Outpatient early Intervention Services with respect to HIV.

Center does not impose charges to the HIV patients for the provision of services base on the permissible aggregate charges.

***Status:*** Partially corrected-corrective action in process.

Action taken: Effective January 2012 procedures were implemented in Lares site to monitor all charges collected to Ryan White participants in order not to exceed cap limit. Same procedure was transmitted to personnel in Quebradillas site but was not properly implemented.

We retrained Quebradillas personnel on a site visit performed on October 2, <sup>2012</sup> and expect full implementation by the end of this year.

Timeframe: December 2012

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued**

Year ended March 31, 2012

***Fiscal year ended:*** 2011

***Finding number:*** 2011-III-3

***Condition:*** Procurement – ARRA CIP

The Institution has acquired the services of an IT provider for the design and creation of the infrastructure necessary for the electronic medical record implementation in the amount \$292,941 without competitive bidding.

***Status:*** Partially corrected-corrective action in process.

**Action Taken:**

A Procurement Manual was approved by CSL's Board of Directors on April 26, 2012 and control procedures were included to comply with competitive bidding requirements. We are still in the process of implementing such Manual. Disclosure and training to personnel with procurement, authorization and monitoring responsibilities is still needed in order to assure compliance of procedures established.

Timeframe: March 2013

***Fiscal year ended:*** 2011

***Finding number:*** 2011-III-4

***Condition:*** Suspension and debarment - Health Center Cluster, Outpatient Early Intervention Services with respect to HIV disease, ARRA - Health Center Integrated Services Development Initiative

Our review of internal controls and procedures showed that the Institution has no controls or procedures designed and in place to assure compliance with the suspension and debarment requirement.

***Status:*** Corrective action was taken.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued**

Year ended March 31, 2012

***Fiscal year ended:*** 2011

***Finding number:*** 2011-III-5

***Condition:*** Equipment and real property management - Health Center Cluster, Outpatient Early Intervention Services with respect to HIV disease, ARRA - Health Center Integrated Services Development Initiative

The Institution is not performing a physical inventory of equipment at least once every two years.

***Status:*** Corrective action was taken

***Fiscal year ended:*** 2010 & 2011

***Finding number:*** 2010-III-2  
2011-III-6

***Condition:*** Other-Financial Management-Budget versus actual analysis - Health Center Cluster, Outpatient Early Intervention Services with respect to HIV disease, ARRA - Health Center Integrated Services Development Initiative

The Institution does not compare, review, and analyze federal funds expenditures recorded in general ledger with the approved budgets on a monthly basis. A limited and/or partial analysis is performed at end of the budget or program period for purposes of preparing federal financial reports to the Grantor. Several journal entries have been made by the Institution at fiscal year end and for audit purposes to conform actual expenditures recorded in general ledger with the approved budgets.

***Status:*** Partially corrected-corrective action in process.

Action taken:

Although accounting records and budget amounts for all funds are being compared as part of the financial results presented in Finance Committee and Board of Directors in summary and following financial statements format, a more detailed analysis is in need of implementation.

**CENTRO DE SALUD DE LARES, INC.  
(A NONPROFIT CORPORATION)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued**

Year ended March 31, 2012

As part of new the accounting software implementation, itemized budgeted amounts by funds, programs and grants will be posted directly to general ledger income and expense accounts. These will permit better tracking and comparison of budget versus actual results.

Timeframe: March 2013



# Centro de Salud de Lares, Inc.

PO Box 379  
Lares, Puerto Rico 00669-0379

December 26, 2012

Health Resources and Services Administration  
Office of Federal Assistance Management

**GRANT NO H80CS00353  
CORRECTIVE ACTION PLAN  
FISCAL YEAR ENDED MARCH 31 2012**

As required, we hereby submit our response and comments to external auditor findings and recommendations:

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## FINDINGS AND QUESTIONED COST FOR FEDERAL AWARD

**Reference Number:** 2012-III-1  
**Agency:** U.S. Department of Health and Human Services  
**Pass-through Entity:** N/A  
**Program:** Health Center Cluster, Outpatient Early Intervention  
Services with respect to HIV Disease  
**CFDA Number:** 93.918  
**Regulation/Requirement:** Allowable Costs / cost principles  
**Type:** Material noncompliance, material weakness – internal controls over compliance  
**Questioned Costs:** \$356,781

### Action:

Although we recognize the Ryan White Part C program (the “Program”) has space for improvements, we strongly disagree with the findings and comments from our auditors. The Program operates as a consortium which is a more complex operation than it’s presented by our auditors. It’s operated following HHS Grant Policy Statement *page II-81 et.seq* which requires CSL, Inc. among other things:

*“Enter into a formal written agreement with each subrecipient that addresses the arrangements for meeting the programmatic, administrative, financial, and reporting requirements of the grant, including those necessary to ensure compliance with all applicable Federal regulations and policies. At a minimum, the subaward agreement must include the following:*

- Identification of the P/ID and individuals responsible for the programmatic activity at the subrecipient organization along with their roles and responsibilities.*
- Procedures for directing and monitoring the programmatic effort.*

• Procedures to be followed in providing funding to the subrecipient, including dollar ceiling, method and schedule of payment, type of supporting documentation required, and procedures for review and approval of expenditures of grant funds. (Emphasis provided)

• *If different from those of the recipient, a determination of policies to be followed in such areas as travel reimbursement and salaries and fringe benefits (the policies of the subrecipient may be used as long as they meet HHS requirements).*

• *Incorporation of applicable public policy requirements and provisions indicating the intent of the subrecipient to comply, including submission of applicable assurances and certifications.*”

Ryan White HIV/AIDS Program legislation provides for to allocate funds to allowable core medical and support services based on documented service needs. In turn, grantees are responsible for disbursing the funds based on those service allocations/priorities, defined as the awarding of financial assistance to an eligible subrecipient. The financial assistance can be awarded through a contractual legal agreement. Federal regulations afford the same treatment to any provider receiving federal dollars for its services. The service provider can be a subrecipient, subcontractor, consortium, governmental agreement, or the lead agency that administers the program.

CSL, Inc as a recipient enters into a formal written agreement with each subrecipient that participates in the consortium that addresses the negotiated arrangements and facilitates an efficient collaborative venture, which, as a matter of fact represents a legally binding contract between the parties. In order to establish an efficient collaborative venture and avoid affecting the services they were contracted to, CSL, Inc. along with the rest of subrecipients agree to set various ceiling prices which mean they will not be reimbursed, should their cost is above these prices settings. These ceiling prices are considered reasonable cost to provide the services and are established and distributed at the beginning of the Program fiscal year from July 1<sup>st</sup> to June 30<sup>th</sup> when the contract is executed. Those ceiling prices may include but are not limited to pharmacy and nutritional product pricing, laboratory service cost, medical service and case management cost. All consortium participants are treated as vendors for expense reimbursement purposes based on agreed upon rates and pricing list established. Also, the site visit performed during August 2010 for the Program recognized that CSL, Inc. operates under a legally binding contract with the consortium.

**Pharmacy and nutritional product pricing** – The pharmacy and nutritional supplements price list is prepared by revising the pricing list of 340B prime vendors, including CSL, Inc. prime vendor, and selecting the lower price for each item at that date. Then, a 25% is applied to cover part of the following associated costs:

- Price variance for the year,
- Inventory management cost, and
- In house Pharmacist cost.

Following is an example of various items:

Description	NDC	Unit	Floor Price (Rev 9/2012)	Celling Price W/ 25% (Rev 9/2012)	Prices at December 2012	
					JMBlanco (340b Prime Vendor)	Drogueria Betances
Norvir 100 Mg Soft Gel Cap	74663330	FCO 30	\$0.31	\$0.39	\$0.31	\$0.97
Stavudine 40mg	31722051860	FCO 60	\$42.15	\$52.69	\$32.30	\$45.80

**Laboratory services pricing list** – As mentioned before, the consortium operation is more complex when compared to a single CHC operational setting. Most lab services provided by sub recipients are performed on external reference laboratories. The fee schedule for reimbursement of lab services provided by subrecipients is based on Medicaid fees for non-billable charges and reference lab’s estimated costs amounts. Questioned costs represent all CSL, Inc charges to the program which includes reference lab services that were charged at fee schedule. In these cases CSL, Inc cost was more expensive than the fee. Following is an example of the comparison of fee schedule price vs. invoice from an external reference laboratory from CSL, Inc.

Service Date	Quest Ref #	Code	Fee RW	Lab Ref	CSL Billed Amount
2/21/2012	8576944	86361	\$ 185.00	\$ 180.00	\$ 40.00

**Medical professional services and case management** - Each subrecipient has the responsibility to contract the personnel required to provide the services. Due to the inherent independence, fiscal and negotiation capabilities of each subrecipient, contract terms may vary. As a matter of fact, for example, CSL, Inc. has a contracted physician that requires an additional \$50 per encounter beside salary, therefore the amount calculated by the auditors do not contemplate this contractual cost element in their formula. The invoices that CSL, Inc as grantee received and paid are prepared by each subrecipient based on the monthly allocation that the Director of the Program adjudicates to each center based on statistics of active patient (unduplicate) and medical encounters reported. These are agreed amounts between each consortium participant and the grantee to cover among other things the following costs associated to:

- Medical service
- Case management functions
- Continuous education hours
- Participation in administrative meetings
- Additional extended hours required (4) four hours
- Maintenance of CareWare data base
- Prepare and submit all required reports

Also, the amount calculated by the auditors does not consider additional cost mentioned above required in the contract between the parties. Note that the allocated amount is the maximum reimbursement that the subrecipient will receive under the contractual agreement. Total amount budgeted and approved for medical services and case management are \$200,000 and 192,000, respectively, and are allocated between the nine nonprofit Community Health Centers (CHC) that participate in the consortium. As required, CSL, Inc., as grantee, reconciled based on contracted amount versus actual data in terms of rate per encounter and results showed that actual cost of services exceeded allocated amounts paid for medical services and case management by \$(12,286.40) and \$(16,209.53), respectively. If we were recording the cost based on the budget as presented by the auditors, the cost for these services would be the same and as you can see, it’s not the case.

As part of our actions taken on these matters we formally communicate these findings to our project officer and request its opinion. Also our next step is to request a technical assistance from HRSA.

**Salary of the Executive Director and Allocation of IT employee** – We strongly believe the time and effort allocated cost from the Executive Director and IT employee are allowable, we did not maintained the personnel activity report after the fact as required, therefore, CSL, Inc. agreed with auditors suggestions in the need to improve documentation and develop procedures for allocation based on time and effort reports. . This is the first time an auditor report findings related to time-and-effort requirements. Our administrative team is moving

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forward to implement policies and procedures related to time and effort reporting process. This effort includes training programs, both formal and informal, to provide for knowledge and skills necessary to determine activities and costs allowed.

**Timeframe: June 2013**

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**Reference Number:** 2012-III -2  
**Agency:** U.S. Department of Health and Human Services  
**Pass-through Entity:** N/A  
**Program:** Consolidated Health Centers (Community Health Centers) & (ACA) Grants for New and Expanded Services under the Health Center Program  
**CFDA Number:** 93.224 and 93.527  
**Regulation/Requirement:** Reporting  
**Type:** Instance of noncompliance; significant deficiency-internal controls over compliance  
**Questioned Costs:** \$ -0-

**Action:** CSL Inc. contracted consultants for operational processes evaluation and for the preparation of an Accounting Policies Procedures and Operations Manual that includes internal control policies and procedures. In addition, CSL, Inc. acquired a new accounting system that will improve monthly in-depth review of the accounting records, including program expenditures of each grant awarded.

**Timeframe: March 2013**

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**Reference Number:** 2012-III-3  
**Agency:** U.S. Department of Health and Human Services  
**Pass-through Entity:** N/A  
**Programs:** Outpatient Early Intervention Services with respect to HIV disease  
**CFDA Number:** 93.918  
**Regulation/Requirement:** Earmarking  
**Type:** Material noncompliance; Material weakness- internal controls over compliance  
**Questioned Costs:** \$ -0-

**Action:** Our administrative team is moving forward to implement policies and procedures related to time and effort reporting process. This effort also include training programs, both formal and informal, to provide for knowledge and skills necessary to determine activities and costs allowed.

**Timeframe: June 2013**

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**Reference Number:** 2012-III-4  
**Agency:** U.S. Department of Health and Human Services  
**Pass-through Entity:** N/A  
**Program:** ARRA-Health Center Integrated Services Development Initiative- (*Capital Improvement Program- CIP*) & (*Increase Demand on Services- IDS*)  
**CFDA Number:** 93.703  
**Regulation/Requirement:** Allowable Costs / cost principles  
**Type:** Material noncompliance, material weakness – internal controls over compliance  
**Questioned Costs:** \$17,056

**Action:** CSL Inc. contracted consultants for operational processes evaluation and for the preparation of an Accounting Policies Procedures and Operations Manual that includes internal control policies and procedures. Our administrative team is moving forward to implement policies and procedures related to time and effort reporting process. This effort also include training programs, both formal and informal, to provide for knowledge and skills necessary to determine activities and costs allowed.

**Timeframe: June 2013**

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Cordially yours,



Rigoberto Hernandez, MHSA  
Executive Director  
Centro de Salud de Lares, Inc.

